BEFORE THE FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Federal-State Joint Board on	)	CC Docket No. 96-45
Universal Service	)	

COMMENTS OF
TEXAS STATEWIDE TELEPHONE COOPERATIVE, INC.

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SUMMARY

In this proceeding, the Joint Board is revisiting the question of the cost basis of universal service support for rural incumbent local exchange carriers (ILECs). Texas Statewide Telephone Cooperative, Inc. (TSTCI) agrees with the Joint Board that the universal service process involves two equally critical steps – the calculation of costs and the allocation of support based upon those costs. However, TSTCI opposes the use of a forward-looking economic cost model (FLEC) to determine the cost to provide universal service in rural areas. FLEC models are relatively unchanged from the time it was determined that the FLEC model did not appropriately estimate costs in rural areas. There are no facts in the current record to indicate that an unchanged FLEC model will now support the goal of an efficient or effective universal service program. FLEC models are built with structural and input bias that fails to account for the variables that may be present in a rural ILEC's service area. As further explained in these comments, such a bias can disproportionately harm a rural ILEC. It is likely that ILECs that provide service in high-cost rural areas within certain states would fail to qualify for federal universal service support under a statewide cost comparison that includes costs of non-rural carriers. TSTCI urges the Joint Board to conclude that the current method of embedded costs is the most effective and efficient method of determining universal service support.

In regard to the allocation of support, TSTCI believes that all ETCs, incumbent or competitive, should receive universal service support based upon their own costs. As an alternative for wireless ETCs, TSTCI agrees with a competitive ETC (CETC) surrogate support mechanism recommended by the Rural Telecommunications Association with minor exceptions as outlined in comments filed in the separate proceeding in this docket.[1]

[1] Reply Comments of TSTCI, September 21, 2004, In the Matter of the Federal-State Joint Board on Universal Service, CC Docket No. 96-45

INTRODUCTION

TSTCI appreciates this opportunity to provide comments to the Federal-State Joint Board on Universal Service (Joint Board) request for comments in the Public Notice released on August 16, 2004 in CC Docket No. 96-45.[2] TSTCI is an association of 36 rural incumbent local exchange carriers (ILECs) which have been providing telecommunications services to rural customers in the State of Texas. (Please see Appendix 1 for a list of member companies.) Each TSTCI Company/Cooperative serves rural and high-cost areas within the state of Texas and meets the definition of a rural telephone company contained in 47 U.S.C. §153(37). Each TSTCI Company/Cooperative is designated as an eligible telecommunications carrier (ETC) for its service area or areas.

The Joint Board seeks comments on the following topics:[3]

- whether the Commission should continue to use the statutory definition of "rural "telephone company" to determine which carriers are rural carriers for high-cost universal service support purposes;
- the appropriate structure of universal service support mechanisms in areas served by rural carriers, including the cost basis of support and the method of calculating support and;
- whether the Commission should retain, modify, or eliminate section 54.305 of its rules.

[2] *See Federal-State Joint Board on Universal Service seeks comments on certain of the Commission's rules relating to high-cost universal service support*, CC Docket No. 96-45, Public Notice, FCC 04J-2 (rel. August 16, 2004).

[3] Id.

TSTCI hereby submits its comments regarding the high-cost universal support mechanisms for rural carriers and the appropriate rural mechanism to succeed the five-year plan adopted in the *Rural Task Force Order*.[4]

I. COST BASIS OF SUPPORT

TSTCI will not dwell on the history and background of how universal service policy has evolved from ILEC's historical cost recovery systems, but rather would refer to OPASTCO's White Paper "Universal Service in Rural America: A Congressional Mandate at Risk" released January 21, 2003, which very adequately summarizes how the current universal service mechanism evolved from the concept stated in the Communications Act of 1934 to the Telecommunications Act of 1996 (1996 Act), which further expanded the purpose of federal universal service funding for companies providing service to rural, insular, and high cost areas.

The 1996 Act's universal service objectives are to promote competition and preserve and advance universal service. To achieve these objectives, Congress enacted Section 254 and 214(e) of the 1996 Act to establish a universal service system that would be sustainable in a competitive environment. Congress delegated to the FCC the responsibility to adopt rules to implement Sections 254 and 214(e) of the 1996 Act, based upon the recommendations of the Joint Board. Section 254(b) of the 1996 Act establishes the following universal service principles to guide the FCC in adopting rules and policies:

> (1) QUALITY AND RATES. Quality services should be available at just, reasonable, and affordable rates.

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[4] *See Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Order, FCC 04-125 (rel. June 28, 2004) (*Referral Order*) (citing *Federal-State Joint Board on Universal Service, Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers*, Fourteenth Report and Order, Twenty-Second Order on Reconsideration, and Further Notice of Proposed Rulemaking in CC Docket No. 96-45, and Report and Order in CC Docket No. 00-256, 16 FCC Rcd 11244 (2001) (*Rural Task Force Order*), as corrected by Errata, CC Docket Nos. 96-45, 00-256 (Acc. Pol. Div. rel. June 1, 2001)).

(2) ACCESS TO ADVANCED SERVICES. Access to advanced telecommunications and information services should be provided in all regions of the Nation.

(3) ACCESS IN RURAL AND HIGH COST ARES. Consumers in all regions of the Nation, including low-income consumers and those in rural, insular, and high cost areas, should have access to telecommunications and information services, including interexchange services and advanced telecommunications and information services, that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for services in urban areas.

(4) EQUITABLE AND NONDISCRIMINATORY CONTRIBUTIONS. All providers of telecommunications services should make an equitable and nondiscriminatory contribution to the preservation and advancement of universal service.

(5) SPECIFIC AND PREDICTABLE SUPPORT MECHANISMS. There should be specific, predictable, and sufficient Federal and State mechanisms to preserve and advance universal service.

(6) ACCESS TO ADVANCED TELECOMMUNICATIONS SERVICES FOR SCHOOLS, HEALTH CARE, AND LIBRARIES. Elementary and secondary schools and classrooms, health care providers, and libraries should have access to advanced telecommunications services as described in subsection (h).

(7) ADDITIONAL PRINCIPLES. Such other principles are as the Joint Board and the Commission determine are necessary and appropriate for the protection of the public interest, convenience, and necessity and are consistent with this Act.

In addition to the seven specific principles, Section 254(b) allows the Joint Board and the Commission to establish additional principles that they determine "are necessary and appropriate for the protection of the public interest, convenience, and necessity and are consistent with this Act."

The FCC has consistently held that universal service must be implemented in a competitively neutral manner.

A principle purpose of Section 254 of the 1996 Act is to create mechanisms that will sustain universal service as competition emerges. We expect that applying the policy of competitive neutrality will promote emerging technologies that, over time, may provide

competitive alternatives in rural, insular, and high cost areas and thereby benefit rural consumers.[5] As a result the Joint Board and FCC defined an eighth principle:

> (8) COMPETITIVE NEUTRALITY. Universal service support mechanisms and rules should be competitively neutral. In this context, competitive neutrality means that universal service support mechanisms and rules should neither unfairly advantage nor disadvantage one provider over another, and neither unfairly favor nor disfavor one technology over another.[6]

With these principles and policies in mind, TSTCI makes these comments. In its First Report and Order, the Commission determined that USF support should be based upon a forward looking economic cost (FLEC) model for all ILECs. Subsequently, in its Rural Task Force Order (RTF), the Commission ordered that universal service support for rural ILECs be based upon the existing, embedded cost methods until 2006, since it did not have sufficient information to develop a FLEC model that could appropriately estimate costs in rural areas.

In this proceeding, the Joint Board revisits the question of the cost basis of USF support for rural ILECs. The Joint Board asks whether FLEC-based USF support applied to rural ILECs will be a "viable long term goal for areas served by rural ILECs"[7] and whether a FLEC mechanism "more efficiently and effectively achieves the 1996 Act's [universal service] goals".[8]

TSTCI opposes the use of a FLEC model to determine the cost to provide universal service in rural areas. FLEC models were deemed ineffective in the *Rural Task Force Order* and nothing has changed in the intervening years. TSTCI believes questions regarding the efficiency and effectiveness of a FLEC-based cost calculation for USF can be answered in part by a comparison of FLEC-based universal service support in rural versus non-rural areas.

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[5] Report and Order at para. 50.
[6] Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Report and Order, 12 FCC Rcd 8776, 8801, para. 47 (1997). (Universal Service First Report and Order)
[7] Id. Para 20
[8] Id. Para 21

A. FLEC MODELS ARE UNCHANGED FROM FIVE YEARS AGO

As the Joint Board states, little if any refinement of the various FLEC models has been performed in the intervening years from the initial *Rural Task Force Order*. There are no facts in the current record to support the argument that an unchanged FLEC model will now support the goal of an efficient or effective universal service program. TSTCI continues to believe that a theoretical model will never produce results that support the goals of the statutes and the Commission's rules.

B. A FLEC MODEL PRODUCES GENERALIZED RESULTS

The FLEC model may be useful to demonstrate that rural areas typically cost more to serve than non-rural areas but will typically fail to account for more specific cost characteristics in diverse settings. The RTF's report to the FCC demonstrated that the rural areas of the nation are diverse and rural carriers do not serve homogenous markets. By necessity, a model produces generalized rather than precise results. A model that assumes customers are all within a predetermined distance of roads where feeder and distribution cable might be theoretically placed fails to capture the cost of facilities that must be placed thousands (or tens of thousands) of feet from the main road. A model that assumes carriers have the opportunity to share duct space or poles does not account for those carriers whose facilities are the sole occupants of ducts and poles. By its very nature, a FLEC model is intended to produce generalized results. Assuming a model could be developed that would capture such rural diversity, the model would deviate from its intended "generalized" function to a more accurate feasibility study of what it would cost to provide service. In other words, the FLEC model would reflect embedded costs which are used today.

The RTF also demonstrated that the FLEC model may produce cost results that may exceed or fall short of actual cost experience.[9] Assuming a FLEC model produces results that are less than the actual cost to serve a particular area, the ILEC suffering from the shortfall may no longer have the financial ability to continue to serve the territory. TSTCI can speculate that in such a case, the impacted ILEC could demonstrate its inability to provide universal service by demonstrating its actual costs exceed the revenues it is capable of generating while maintaining just, reasonable, comparable and affordable rates. Assuming a FLEC model results in more cost than actually incurred by the ILEC, then the impacted ILEC will enjoy a financial windfall at the expense of other consumers and sound public policy.

In the case of a windfall, the temptation would be to establish a policy that no ILEC should receive an amount of USF support that exceeds its actual embedded cost. In the case of a shortfall, an ILEC would use embedded cost to demonstrate that the public policy goals for universal service are not being met. In either case, should such a policy be adopted, embedded cost becomes the ceiling for support and the floor is FLEC.

C. ALL FLEC MODELS ARE BIASED

A FLEC model is inherently built with structural and input bias. Limiting inputs to be considered in the model fails to account for all variables that may be present in a rural ILEC territory. The Commission itself introduced structural bias into the FLEC model used in the non-rural USF proceeding by assuming wire center locations are a given. If a one-size-fits-all model approach is selected for rural areas the modeled cost of switching, assuming current wire center locations, will likely exceed the actual experience of new entrants, particularly wireless carriers, that serve vast areas with a single switch. This type of result creates a bias in favor of the new entrant to the detriment of the ILEC serving the area and could discriminate among technologies.

[9] See Rural Task Force White Paper.

Selection of input values also introduces bias. For example, a model may assume discounts for switching equipment available to one size or type of carrier that may not be available to a different carrier. A model may assume that a 12-strand fiber cable is optimal but in reality a 24-strand cable may be more cost efficient. The allocation of spare capacity and fill factors become model input assumptions with far reaching consequences for determining cost that may not reflect the vagaries of actual market conditions that sometimes price a 24-strand fiber cheaper than 12 strands. Inherent in each and every assumption when comparing actual costs to modeled costs is the replacement of the judgment of an owner or manager with that of the model's author. Each input relies upon subjective bias, but the owner or manager also has a fiduciary responsibility in the outcome.

D. A FLEC MODEL HARMS RURAL ILECS DISPROPORTIONATELY

Non-rural ILECs enjoying relatively low costs per customer served, economies of scale and scope and historically growing markets have never relied upon universal service to maintain financial viability. In sharp contrast, universal service support is a very significant source of revenue for many rural ILECs. For many of the TSTCI members, the universal service support relied upon to provide supported services to its customers exceeds 50% of total revenues. If a FLEC model determines that a RBOC's USF needs are only 50% of its previous amount, the RBOC's revenues may be reduced by only a few percentage points. If, however, a FLEC model determines that a rural ILEC's USF needs are only 50% of its previous amount, it is probable that the ILEC's revenues would be reduced by 25%. The total of the revenues lost can not be made up by increasing end user rates, since such an increase could result in a doubling (or more in some cases) of the end users rates. This then would lead to the end user abandoning the ILEC's service for a lower cost alternative provider which would drive up the cost per end user served by the ILEC, which would lead to increased rates and the cycle continues.

E. EMBEDDED COSTS ARE EFFICIENT AND EFFECTIVE IN DETERMINING RURAL ILEC UNIVERSAL SERVICE SUPPORT

As TSTCI stated above, if FLEC costs are the floor and embedded costs are the ceiling, then one can conclude that embedded costs are an adequate standard to achieve the 1996 Act's universal service goals. The inherent bias in any discussion comparing embedded costs versus those produced by a FLEC model is the assumption that embedded costs do not encourage effective and efficient deployment of networks that serve the public interest and provide the supported services. TSTCI agrees with the Joint Board that the USF process involves two equally critical steps – the calculation of costs and the allocation of support based upon those costs. Leaving the second half of the USF equation for later comment, the replacement of the judgment of an owner with a fiduciary stake in the deployment of an efficient network with the judgment of a model's author does not address the policy question of how much support is sufficient to produce the desired result – affordable quality service in rural, insular, and high cost areas of the nation. The current system relying upon embedded costs provides its own incentives for rural carriers to be efficient and effective when making investment decisions. First, there is a significant lag time between the actual investment and cost recovery. An investment made at the beginning of 2004 will not produce additional USF support until 2006. Second, since the 1996 Act, rural ILECs have analyzed the new portability rules, the Joint Board and Commissions' repeated efforts to limit the growth of the fund and efforts to convert the embedded cost methodology to a theoretical model where the model's results are unknown for a particular ILEC service area. This uncertainty has influenced investment decisions. Third, when the FLEC model's results suggested costs greater than embedded costs, the rules for non-rural ILECs were changed to a comparison of statewide, rather than nationwide average costs. This change to the rules resulted in carriers with high embedded *and* high FLEC model costs receiving less universal service support than before since their statewide average costs did not exceed the new

threshold. This rule change introduced additional uncertainty and has also caused rural ILECs to increase their scrutiny of long term investments that rely upon the USF.

Nevertheless, in spite of the uncertainty of the universal service rules over the past five years, rural ILECs have managed to continue to prudently invest in cable and wire facilities (C&WF) in order to maintain and upgrade rural infrastructure to meet the requirements of the state regulatory agencies and end users. In fact, the average remaining economic life of cable and wire plant has remained relatively steady over the past four years. The following data, analyzed and summarized from the universal service filings of all ILECs between the years 2000 and 2003, compares the average remaining life of cable and wire plant, for the rural and non-rural ILECs.

ILEC C&WF
Remaining Life (Years)

Year	Rural	Non-Rural
2000	10.26	7.95
2001	10.14	7.42
2002	10.02	6.87
2003	9.60	6.48

Source: http://www.fcc.gov/wcb/iatd/neca.html
Universal Service data submissions. Remaining Life = ((DL255_ACCT_2410 less DL280_3100_2410) divided by DL530_6560_2410)

The data demonstrates that rural ILECs, given an opportunity to invest prudently and recover appropriate embedded costs, have virtually maintained the average life of critical cable and wire network infrastructure. The remaining economic life of C&WF plant in rural ILEC service areas has been reduced by a scant 8 months, from 10.26 years in 2000 to 9.6 years or 6% in 2003. Non-rural ILECs, supported by USF based upon FLEC, have not been as motivated to invest in their C&WF networks, shortening their C&WF life span from 7.95 years to 6.48 years, a decrease of 18.5% in estimated remaining economic life. This data clearly demonstrates the relative incentive to invest (cost recovery based upon embedded costs actually incurred) versus

the clear disincentive to invest (USF limited to a theoretical model compared to statewide rather than nationwide average costs).

It is also interesting to note that the data suggests that the incentive to invest based upon embedded cost recovery has led to a cost replacement strategy rather than an over investment strategy in rural America. Conversely, the remaining economic (and likely technical) life of non-rural ILEC C&WF investment has decreased at 3 times the rate as rural ILEC plant (6% rural versus 18% non-rural). If rural ILECs were simply motivated to maximize earnings by maximizing embedded costs, the data should have shown an increase in the estimated life of cable and wire plant reflecting possible imprudent investment since rate of return regulation provides profit only on actual investment. The facts demonstrate that rural ILECs steadily replace plant that needs to be replaced in order to provide quality services to rural America. The data also demonstrates that this is an efficient and effective replacement strategy.

The Joint Board will likely receive comments from several parties alleging that excessive corporate operations expense is an impediment to an efficient and effective universal service program. TSTCI urges the Joint Board to reject these claims as baseless. First, corporate operations expenses are not fully recovered from universal service support. Rather, an allocation of some corporate costs are recovered. Second, the Commission has already addressed the issue comprehensively and limits the recovery of these costs from the USF under well-settled, existing rules. Any ILEC incurring excessive corporate operations expense with the belief that it will recover these costs from universal service support is mistaken since each dollar spent returns significantly less in support. Should the Joint Board determine that additional corporate operations expense should not be recovered from the USF, TSTCI urges the Joint Board to exercise caution and use the same precision it used in the last adjustment to ensure the change

does not create any unintended consequences. An allegation of excess should not be the sole basis for converting rural ILECs to a theoretical cost model for universal service support.

TSTCI urges the Joint Board to conclude that embedded costs are an effective and efficient mechanism for supporting universal service. The record indicates that rural ILECs invest in networks that need to be built to provide services demanded by end users rather than networks that are inefficient and ineffective.

II. COSTS COMPARISON MUST BE PERFORMED ON A NATIONWIDE STANDARD

Non-rural ILECs subject to the FLEC-based cost standard are also subject to a comparison of statewide, rather than nationwide, average cost as the threshold to qualify for any USF support. Non-rural ILECs qualify for USF support only if the statewide average FLEC-based cost per line exceeds 135% of the national FLEC-based average cost per line. Most non-rural ILECs subject to this rule have costs that drive the statewide average, i.e., their dominant position within a state produces costs that are at or near the statewide average. It is likely that high-cost rural ILECs within certain states that would fail to qualify under a statewide cost comparison, but nevertheless have costs that greatly exceed nationwide standards, would be cut off from federal USF support.

Such a policy would mean consumers served by rural ILECs in states that no longer qualify for USF support as a result of the use of the 135% threshold would be at risk of losing necessary USF support to keep local rates affordable. The affected consumers would be penalized for living in a rural area of an otherwise relatively low cost state. Once again, TSTCI refers to the problems rural and high cost carriers are faced with – a lack of scale and scope economies. Since the Commission is charged with ensuring nationwide affordable rates, the only appropriate comparison is nationwide costs.

III. PERHAPS THE MOST EFFICIENT METHOD TO MODERATE GROWTH IN THE USF IS BY MODIFYING THE SECOND HALF OF THE USF EQUATION

As stated above, the Joint Board has correctly summarized the USF equation as two separate parts: the identification of costs followed by the calculation of support based on costs. TSTCI supports the use of embedded costs for all carriers as the most efficient and effective method to determine universal service support. TSTCI also submits to the premise that any carrier seeking universal service support to provide universal services should be obligated to assure the public that it is using the support for its intended purposes. However, as the Joint Board, the Commission, Congress and the Courts wrestle with the sometimes competing goals of universal service and a competitively neutral universal service program, questions have been raised as to whether the universal service support mechanism as currently configured provide the necessary assurance that the programs are effectively and efficiently administered.

One area already addressed by commenting parties in a prior proceeding dealt with the scope of USF support.[10] The Joint Board recommended, *inter alia*, a "primary line" system whereby consumers choose the primary carrier that would then receive universal service support targeted to the consumer or perhaps a billing address. In this proceeding, the Joint Board at least partially revisits the issue and TSTCI will address it herein.

Most rural ILECs and wireless carriers oppose the primary line approach, and with good reason. Many rural ILECs support a policy that requires all ETCs, incumbent or competitive, to demonstrate their own costs. However, to the extent that CETC costs can not be determined with the desired precision to support public policy and the Commission chooses to continue to rely upon an ILEC's embedded costs, TSTCI believes a sound approach that already exists within current universal service rules is an appropriate method of calculating CETC support in the

[10] Federal-State Joint Board on Universal Service, Notice of Proposed Rulemaking, CC Docket No. 96-45, FCC 04-127 (rel. June 8, 2004)

second part of the universal service equation. Finally, TSTCI also agrees with an alternative CETC surrogate support mechanism that has been suggested in the prior proceeding. Each is consistent with sound pubic policy.

A. APPLY EXISTING RULES IN A COMPETITIVELY NEUTRAL MANNER TO ALL ETCs

Current universal service support rules limit the amount of per-line support for ILECs with greater than 200,000 access lines.[11] This rule is based on the fact that larger ILECs enjoy economies of scale and scope and an enhanced ability to average high costs over many more services and end users that mitigates the need for substantial universal service support. ILECs with fewer than 200,000 access lines have less ability to achieve economies of scale and scope and certainly can not average their inherent high costs and thus are provided with additional USF relative to a larger ILEC. In practice, where two rural ILECs have very similar cost characteristics, the rural ILEC with more than 200,000 access lines will receive significantly less USF support than an ILEC with fewer than 200,000 access lines.

If this rule were applied to CETCs, large national wireless carriers would qualify for USF support in the same manner that large regional ILECs qualify. As an example, assume two ILECs serving similar service areas have identical costs-per-loop. Assume one rural ILEC serves 100,000 access lines and the other rural ILEC serves 300,000 lines. Finally, assume a national wireless ETC with over 3,000,0000 customers is designated in the area of the first rural ILEC and is therefore provided USF support based upon the (current) equal support rule where the CETC receives the same per-line support as the ILEC. The result is the large, national wireless carrier with multiple times the economies of scale and scope of the second ILEC receives USF support as if it were a small ILEC serving less than 200,000 lines. TSTCI believes that the same rule that limits support to the ILEC serving over 200,000 access lines should be

applied to the large, national CETC. TSTCI believes it makes little sense and may be contrary to the intended purposes of the universal service provisions of the 1996 Act to provide universal service support to large carriers that are capable of enjoying tremendous economies of scale and scope as if they were a small rural ILEC. Application of the existing rule to all carriers who receive universal service support would be competitively and technologically neutral. Any CETC serving more than 200,000 lines should be assumed to be similarly situated to an ILEC serving more than 200,000 lines. This existing rule was established on sound principles and will not require the development of new cost studies or additional algorithms to address wireless CETC costs and universal service support.

B. THE RURAL TELECOMMUNICATIONS ASSOCIATION APPROACH

Rather than requiring a CETC to perform a cost study that demonstrates its own embedded cost, the Rural Telecommunications Association (RTA)[12] filed comments in a prior proceeding that recommends a tiered USF support payment calculation that is simpler than a fully developed FLEC model and support approach. RTA recommended that wireless CETCs be classified into one of four tiers. The tiers stratify wireless carriers by size and assume relative size reflects their ability to average costs and enjoy scale and scope economies. Specifically, the RTA filing addressed the calculation of wireless CETC support as follows:

> **Tier IV Wireless Carriers** - Carriers that have 100,000 or fewer subscribers would be eligible to receive 80 percent of the study area average per-line support received by the incumbent local exchange carrier (ILEC) that offers service to the customer.
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> **Tier III Wireless Carriers** - Carriers that have between 100,001 and 500,000 subscribers would be eligible to receive 40 percent of the study area average per-line support received by the ILEC that offers service to the customer.

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[11] 47 CFR §36.631(d)

[12] The RTA is comprised of The Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO), the Rural Independent Competitive Alliance (RICA), and the Rural Telecommunications Group (RTG) who joined together to file comments in CC Docket 96-45, FCC 04-127, on August 6, 2004.

Tier II Wireless Carriers - Carriers that have over 500,000 subscribers, but do not possess a national footprint would be eligible to receive 20 percent of the study area average per-line support received by the ILEC that offers service to the customer.

Tier I Wireless Carriers - Carriers with a national footprint would receive 0 percent support.

TSTCI supports this alternative as a reasonable approach to resolving the growth of the USF issue raised in this and the previous proceeding. Each of the alternatives to requiring a CETC to demonstrate its own costs permits the Commission to address relevant policy issues regarding the sustainability of the fund by relying in whole or in part on past decisions, i.e., that a carrier's size in terms of access lines is a reasonable reflection of its need for USF support. Each avoids the need to develop complex cost models for any ETC, incumbent or competitive.

TSTCI suggests another possible solution is that a high cost fund separate from the high cost fund available to incumbent ILECs be set up for CETCs. States should determine CETC eligibility for fund participation after a determination that such granting of eligibility is in the public interest and that the benefits received by the public exceed the costs. The participants in the CETC fund should be held to similar regulatory standards and quality of service obligations as are the ILECs, and that the competing ETCs' USF funding should not be based on incumbent ILEC costs but rather on a cost methodology more closely reflecting the competing ETC's cost to provide the service, as discussed above. TSTCI believes that this will eliminate an unintended windfall in the current system that allows a CETC to receive payments on the basis of the cost recovery of the incumbent LEC. It does not make economic sense for a CETC to receive USF above its actual cost to provide the supported services and to use the incumbent LEC's network to provide cheap (and in some cases free) transport and termination of their calls. This form of market entry only encourages a CETC to seek this true subsidy payment as a business model and thus allows them to engage in unfair competitive practices due to the fact they could receive a subsidy in excess of their true costs. The incumbent LEC does and would have a business risk in

investing in plant because of long depreciation lives and uncertainty of revenues and recovery over the long term, while the CETC can deploy primarily for mobile services and take the subsidy payments as a bonus to their stockholders with virtually no business risk. TSTCI does not believe it was the intent of the 1996 Act to create an unfair competitive situation in either direction and it would certainly be unfair if one competitor might be able to get subsidies in multiples of their cost structure and the other competitor only receives a portion of their true cost. In most cases today, due to cost and regulatory advantages enjoyed by the wireless industry, there is actually an active competitive situation between wireless providers and incumbent LECs and is being cited by reliable sources as one of the primary factors in the trend of fewer access lines by incumbent LECs in rural and urban areas. The addition of subsidy payments (again, in contrast to cost recovery in a regulated environment) would throw the balance of competition so far in one side's corner that it will eventually put the one competitor out of business to the detriment of the network as a whole because of critical components that only the incumbent LEC is providing today. Note that TSTCI is not saying that there should not be competition and that CETCs should not receive cost supports, only that cost supports should be at a level that ensures recovery of their own underlying cost of providing service.

CONCLUSION

Today, thanks to capital funds available from many sources and universal service support, the TSTCI member companies are able to provide to their customers services including, voice grade access to the public switched network, local usage, dual tone multi-frequency signaling, single party service, access to emergency services, access to operator services, access to interexchange service, access to directory assistance and toll limitation for qualifying low income consumers. We believe all of these services are being offered to the rural customers at quality equal to or greater than services received by customers in urban areas and at rates

comparable to those paid by their urban counterparts for similar services. In addition, many of the rural companies have chosen to further invest in their communities by providing Internet, DSL, long distance, cable television, and facility leasing services that, in most cases, would not have been available otherwise in the areas served. The investments necessary for the rural companies to provide these services to their rural customers was made based, at least in part, on the reliance on the universal service funds received and those anticipated to be received.

TSTCI is concerned about the growth of the fund and its continued viability to ensure the objectives of the Telecommunications Act of 1996 as set forth in Section 254(b).

Specifically, TSTCI embraces the following policy principles.

1. Rural Consumers should have affordable telecommunications services, comparable in quality and price to urban areas.

2. Funding should be sufficient to provide for critical infrastructure in rural areas.

3. The universal service fund is a scarce national resource. Therefore, supporting multiple carriers is in the public interest only when benefits exceed cost.

4. The universal service fund should not be used to create uneconomic competition.

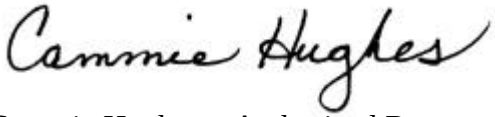
5. All carriers receiving support should be held to similar service obligations and regulatory standards.

6. Funding should come from the broadest base of providers and services.

TSTCI respectfully requests that the Joint Board adopt the recommendations set forth above. These recommendations are designed to protect the sustainability of the federal Universal Service Fund and bring real benefits, including a sustainable competition, in rural areas throughout our great Nation.

Respectfully submitted this 15th day of October 2004,

Texas Statewide Telephone Cooperative, Inc.



Cammie Hughes – Authorized Representative

TEXAS STATEWIDE TELEPHONE COOPERATIVE, INC.

Brazos Telecommunications, Inc.
Brazos Telephone Coop., Inc.
Cameron Telephone Company
Cap Rock Telephone Coop., Inc.
Central Texas Telephone Coop., Inc.
Coleman County Telephone Coop., Inc.
Colorado Valley Telephone Coop., Inc.
Comanche County Telephone Company, Inc.
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Eastex Telephone Coop., Inc.
Electra Telephone Company
Etex Telephone Coop., Inc.
Five Area Telephone Coop., Inc.
Ganado Telephone Company, Inc.
La Ward Telephone Exchange, Inc.
Lake Livingston Telephone Company
Lipan Telephone Company
Livingston Telephone Company
Mid-Plains Rural Telephone Coop., Inc.
Nortex Communications, Inc.
North Texas Telephone Company
Panhandle Telephone Coop., Inc.
Peoples Telephone Coop., Inc.
Poka Lambro Telephone Coop., Inc.
Riviera Telephone Company, Inc.
Santa Rosa Telephone Coop., Inc.
South Plains Telephone Coop., Inc.
Tatum Telephone Company
Taylor Telephone Coop., Inc.
Wes-Tex Telephone Coop., Inc.
West Plains Telecommunications, Inc.
West Texas Rural Tel. Coop., Inc.
XIT Rural Telephone Coop., Inc.